

DOCKET FILE COPY ORIGINAL

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

RECEIVED

AUG 23 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
Comprehensive Review of the)
Accounting Requirements)
And ARMIS Reporting Requirements for)
Incumbent Local Exchange Carriers: Phase 1)

CC Docket No. 99-253

COMMENTS OF AMERITECH

I. Introduction and Summary

Ameritech¹ submits its comments in the initial phase of the comprehensive review on accounting requirements and the automated information reporting management system (ARMIS) reporting.² The review has been divided into two phases. Phase 1, which is the subject of the current proceeding, proposes reform measures that can be implemented without delay and without compromising the Commission's and state commissions' information needs. Phase 1 is to conclude by the end of 1999 and Phase 2, which is to address long-term changes, is to begin by the fourth quarter of 1999. Both phases are to enable the federal and state jurisdictions and the public to fully participate in changes to

¹ Ameritech means: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Inc., Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc.

² See in the Matter of Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1, Notice of Proposed Rulemaking, CC Docket No. 99-253, released July 14, 1999, "the Phase 1 Accounting Notice".

No. of Copies rec'd 014
List ABCDE

accounting and reporting regulations.³ Both phases are to complement the Commission's 2000 biennial review under Section 11 of the Communications Act.

Despite having received numerous recommendations on accounting and reporting simplification over the past eighteen months,⁴ the Commission's orders on the first biennial review on accounting and reporting have only provided some relief to mid-sized carriers, and virtually no relief to large carriers.⁵ Since the Commission has proposed little relief in Phase 1 of this proceeding, it should quickly conclude this phase and enter into Phase 2 to eliminate unnecessary requirements for all carriers. The Commission should also establish a date certain for the completion of Phase 2 of August 1, 2000. The framework for Phase 2 relief should include the proposals of the United States Telephone Association's (USTA) recent petition for rulemaking on regulatory reform and the simplification proposals of Arthur Andersen LLP.⁶ Specifically, Phase 2 should adopt specific transition steps to the full adoption of generally accepted accounting principles (GAAP) and the elimination of detailed accounting and reporting requirements, including adoption of Class B accounting for all carriers, streamlining of the continuing property record requirements, consolidation of the ARMIS operational and financial schedules, and simplification of cost allocation and affiliate transaction rules.

³ See the Phase 1 Accounting Notice at ¶¶1-2.

⁴ See for example, letter of Ms. Robin Gleason, Director-Regulatory Finance to Mr. Kenneth Moran of March 13, 1998; Petition for Section 11 Biennial Review of SBC Communications, Inc. of May 8, 1998; United States Telephone Association Petition for Rulemaking, ASD 98-64, filed September 30, 1998. See also, United States Telephone Association Petition for Rulemaking filed August 11, 1999, "the USTA Petition for Rulemaking".

⁵ See the Phase 1 Accounting Notice at ¶¶4-5.

The Commission's press release announcing the Phase 1 Accounting Notice asserts that adoption of its proposals will reduce the number of accounts and subaccounts by over 50 percent, reduce the cost of audits by one-third, and lessen the burden of ARMIS by over one-half.⁷ And the Notice suggests that these benefits⁸ will result from reform measures that can be made without delay.

While this comprehensive review is a step in the right direction and Ameritech fully supports all efforts directed toward meaningful change, the Commission should not approach revisions to its rules on undefined measures which may be largely irrelevant. Specifically, reductions in the number of accounts carriers are required to maintain or other such benchmarks are only one such measurement that should be used to determine the continued application of a regulation.

Noticeably absent from the Phase 1 Accounting Notice is the explicit reference to an analytical framework upon which an evaluation of proposed changes will be based. Since these proceedings are to complement the biennial review, the analytical framework adopted in the biennial review should be applied. Ameritech submits that the Commission should use the analytical framework it enunciated in response to SBC Communications, Inc., Petition for Section 11 Biennial Review filed May 8, 1998, which

⁶ See the USTA Petition for Rulemaking. See Accounting Simplification in the Telecommunications Industry, Prepared by Arthur Andersen LLP, July, 1998 and November, 1998.

⁷ See NEWS, FCC Issues Notice of Proposed Rulemaking in comprehensive Accounting and Reporting Review, released July 14, 1999. Ameritech is hard pressed to grasp where there is a 50 percent reduction in accounts and how the burden associated with ARMIS is reduced by one-half when there is no proposal to eliminate any account and ARMIS remains largely intact.

⁸ See the Phase/Accounting Notice at ¶2.

framework was used in the biennial review proceedings.⁹ Specifically, the regulations should be evaluated on the basis of: (i) the validity of the original or present purpose of the regulation, (ii) if valid, does the regulation achieve its purpose, (iii) an evaluation of a regulations burdens versus benefits, (iv) an evaluation of less burdensome alternatives, and (v) an evaluation of whether the regulation overlaps, interferes, or conflicts with other regulations.

In these comments, Ameritech supports: (i) the elimination of the expense matrix, Section 32.5999(f), (ii) an attestation audit of Part 64 every other year, (iii) the elimination of the requirement to perform fair market valuation studies or at a minimum raising the threshold to \$ 500K, (iv) the retention of an annual cost allocation manual filing requirement with no contemporaneous filing of cost pool or time reporting changes with the changes effective date, (v) proposed eliminations of notification requirements, and (vi) the application of the ARMIS reporting relief granted mid-sized carriers to large carriers with the elimination of twenty-two tables.

Chairman William Kennard recently issued the Draft Strategic Plan of the Federal Communications Commission in August, 1999, a roadmap for transforming the Commission over the next five years. Included is a plan is to eliminate outdated rules in order to accelerate the transition to fully competitive markets.¹⁰ The Commission also

⁹ See In the Matter of 1998 Biennial Regulatory Review – Petition for Section 11 Biennial Review filed by SBC Communications, Inc., Notice of Proposed Rulemaking, CC Docket No. 98-177, released November 24, 1998, at ¶4.

¹⁰ See Draft Strategic Plan of William E. Kennard, Chairman, Federal Communications Commission, August, 1999, at p. 14.

recently announced the adoption of pricing flexibility and access charge reform.¹¹ Part of that reform entails the elimination of the lower formula adjustment mark (LFAM), which is another vestige of rate of return regulation on which the continued application of the accounting and reporting rules have been based. With the elimination of LFAM and other changes in regulation and competition, a renewed opportunity for accounting and reporting reform is presented. Ameritech urges the Commission to take advantage of the real opportunity presented by this comprehensive review of accounting and reporting regulations to apply its strategic plan and set a benchmark of success for its review of all its regulations.

A. Accounting Rules

1. Expense Matrix

Ameritech supports the Commission's tentative conclusion to eliminate the expense matrix requirements of Section 32.5999(f) because the information can be provided by carriers on an as-needed basis.¹² Past use of this information to perform trend analyses and studies, principally rate of return based, no longer justify its continued routine production. Any need for information for price cap productivity studies or adoption of any future generally accepted accounting requirements can be provided on an as-needed basis.

¹¹ See NEWS, Federal Communications Commission, Commission Adopts Pricing Flexibility and Other Access Charge Reforms, Report No. 99-33, August 5, 1999.

For price cap carriers with no sharing and no LFAM, continuing the requirements of the routine production of the expense matrix fails the measures of continued validity, burdens versus benefits. The less burdensome alternative of provision of this information on an as-needed basis should be adopted.

2. Audits

Ameritech supports extending to large carriers the relief provided mid-sized carriers.¹³ Specifically, Ameritech supports the application of an attestation audit every two years for the prior two year period, as opposed to the current requirements of annual audits requiring a positive opinion. Ameritech agrees with the Commission's tentative conclusion that an attestation audit provides adequate assurance.¹⁴ The parameters of the attestation audit should conform to Generally Accepted Auditing Standards (GAAS) with a real reduction in the current auditing requirements. Ameritech participated in and supports the comments filed by USTA in this proceeding. Specifically, Section 64.904(a) and (b) require revision to ensure that the audit requirements conform to GAAS and do not only change in name only, with no meaningful change.

An audit every two years is a less burdensome alternative and better aligns the benefits of the regulation with its burden. To the extent continuation of the audit is

¹² See the Phase 1 Accounting Notice at ¶¶7-9, See also, Comments of the Public Service Commission of Wisconsin at p. 2.

¹³ See the Phase 1 Accounting Notice at ¶¶10-13.

¹⁴ See the Phase 1 Accounting Notice at ¶12. See also, Comments of the Public Service Commission of Wisconsin at pp. 3-4.

required, the current audit requirements exceed the purpose. The attestation shows that a carrier's cost allocation methodologies conform with its cost allocation manual which was approved by the Commission, and that the results are an accurate application of those methodologies.

3. Affiliate Transaction Rules

Performing fair market value studies for the provision of services is a costly exercise that serves no valid purpose for price cap carriers with no sharing. This requirement should be eliminated outright. Alternatively, Ameritech supports the adoption of a threshold where the total annual value of transactions is de minimus.¹⁵ Rather than \$ 250 K as proposed in the Phase 1 Accounting Notice, Ameritech supports a threshold of \$ 500 K. Furthermore, any transactions subject to the fair market value valuation standard should be subject to the \$ 500 K threshold.

4. Elimination of 15-Day Pre-filing for Cost Pool and Time Reporting Changes

Ameritech supports the elimination of the 15-day pre-filing requirement for cost pool and time reporting changes.¹⁶ Ameritech does not support the requirement to file changes contemporaneously with their effective date. An annual filing with information on the effective date of the change provides the Commission with the necessary information for auditing and disclosure purposes. A contemporaneous filing requirement does not pass a benefits versus burdens test, nor is it a less burdensome alternative.

¹⁵ See the Phase 1 Accounting Notice at ¶15.

¹⁶ See the Phase 1 Accounting Notice at ¶17.

5. Proposed Revisions to Accounts

Ameritech supports the elimination of the notification requirement of Section 32.13(a)(3), Accounts-General, and the filing requirement of Section 32.25, Unusual Items and Contingent Liabilities. The Commission's tentative conclusion that it has the ability to obtain this information as needed allows elimination of this requirement in favor of the less burdensome alternative.¹⁷

With respect to the proposed revisions to requirements of Section 32.2002, Property Held for Future Telecommunications Use and Section 32.2003, Telecommunications Plant Under Construction, Ameritech agrees with the position of the USTA. While the Commission's proposed revisions eliminate the reclassifications associated with these accounts, the ARMIS reporting requirements proposed to ensure the proper ratebase treatment are not a less burdensome alternative.¹⁸ For carriers under Price Caps with no sharing and no LFAM, ratebase considerations are no longer valid and the Commission should simply eliminate these requirements.

B. ARMIS Reporting Rules

For carriers under price caps with no sharing, the continued usefulness and validity of any ARMIS report no longer applies. In Phase 2, the Commission should

¹⁷ See the Phase 1 Accounting Notice at ¶¶18-19. See also, Comments of the Public Service Commission of Wisconsin at p. 5.

¹⁸ See the Phase 1 Accounting Notice at ¶¶20-21.

adopt a transition plan for the complete elimination of ARMIS. The first step should allow consolidation of the operational and financial information into two reports.¹⁹

In the current proceeding, the Commission proposes the elimination of seven "B" tables, three "I" tables, the consolidation of four "C" tables into one, the reduction of reporting requirements of Table C-5, and changing the threshold level of reporting for Table I-6, Special Charges, and Table I-7, Donations or Payments for Services Rendered For Persons Other Than Employees.²⁰ The Commission's proposals are a step in the right direction, but inadequate. At a minimum, the relief granted mid-sized carriers should be extended to large carriers. Such relief addressed twenty-one tables and not the currently proposed fourteen. No justification or valid purpose is provided for the continued requirements of these additional tables for the large carriers. Tables I-6 and I-7 should clearly be eliminated,²¹ as they are particularly burdensome and costly to prepare and file, and have no valid purpose for price cap carriers with no sharing and no LFAM.

IV. Conclusion

For the foregoing reasons, the Commission should adopt the proposals of Phase 1 as modified herein, quickly conclude this proceeding, and initiate the next phase of its comprehensive review. By August 1, 2000, Phase 2 should conclude with the adoption

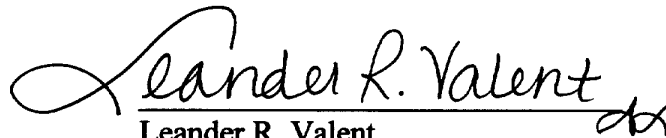
¹⁹ See the USTA Petition for Rulemaking.

²⁰ See the Phase 1 Accounting Notice at ¶¶22-30.

²¹ See Comments of the Public Service Commission of Wisconsin at p. 10.

of specific transition steps to achieve the full adoption of Generally Accepted Accounting Principles (GAAP) and the elimination of detailed accounting and reporting requirements including the adoption of Class B accounting for all carriers, the streamlining of the continuing property record requirements, the consolidation of the ARMIS operational and financial schedules, and the simplification of cost allocation and affiliate transaction rules.

Respectfully submitted,

A handwritten signature in cursive script that reads "Leander R. Valent". The signature is written in dark ink and is positioned above the printed name and address. There is a small, stylized mark to the right of the signature, possibly a flourish or a second signature.

Leander R. Valent
Counsel for Ameritech
9525 w. Bryn Mawr, Suite 600
Rosemont, Illinois 60018
(847) 928-4396

August 23, 1999